



Comments of Southern California Gas Company and San Diego Gas & Electric Company on the:

CEC Staff's Preliminary Natural Gas Assessment and Policy Issues Report

Natural Gas Infrastructure & Policy

2005 IEPR Committee Hearing

Sacramento, California

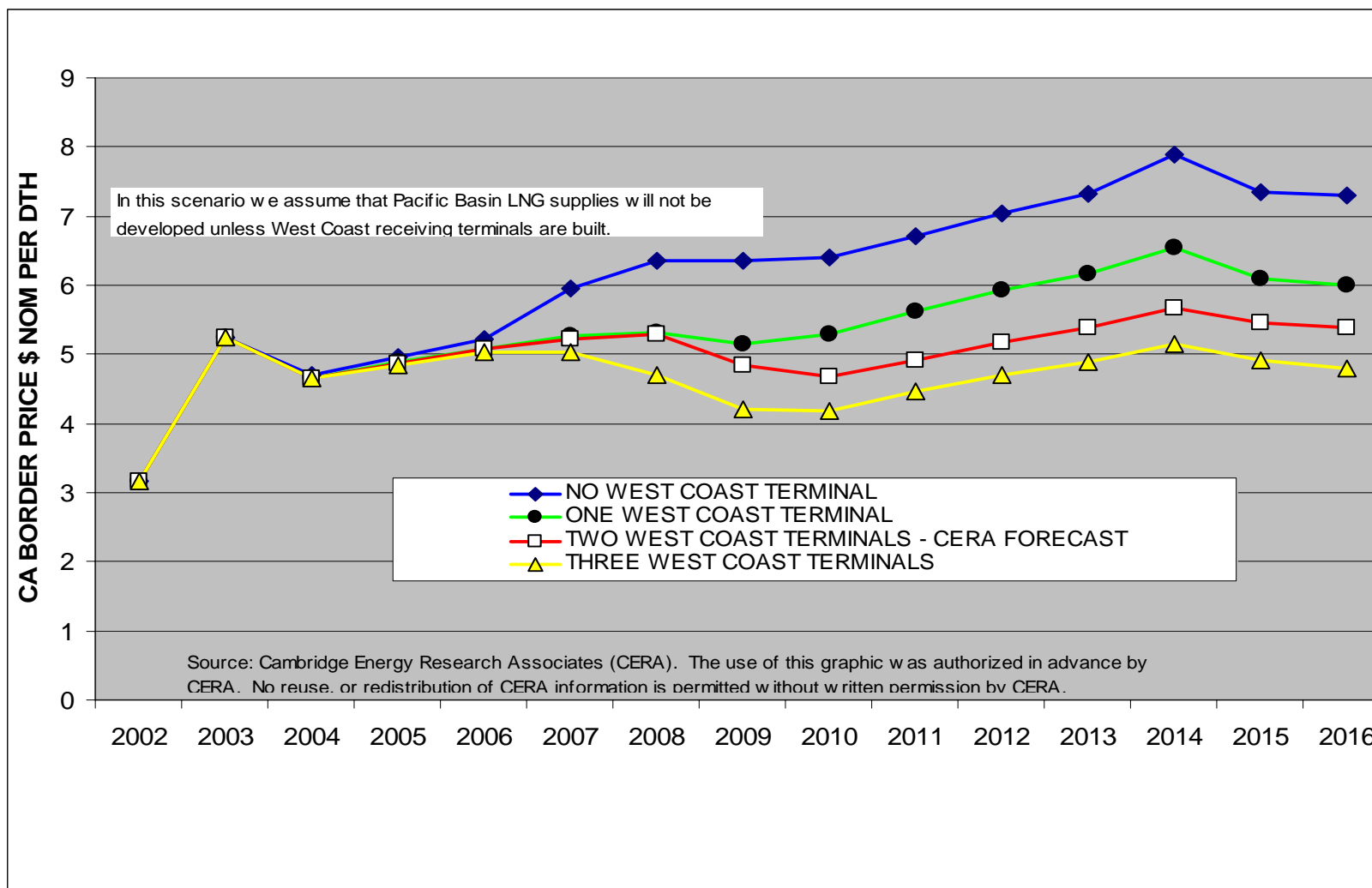
July 14, 2005



SoCalGas/SDG&E Gas Policy Proposals

- ❖ SoCalGas and SDG&E believe the state should implement a comprehensive gas framework in southern California to help customers reduce their energy costs.
- ❖ SoCalGas and SDG&E proposals are designed to:
 - Increase customer choice;
 - Encourage development of new supply sources;
 - Ensure the infrastructure adequacy to meet customer needs.

Customers could save \$300MM- \$1B annually from access to West Coast LNG



Gas Infrastructure

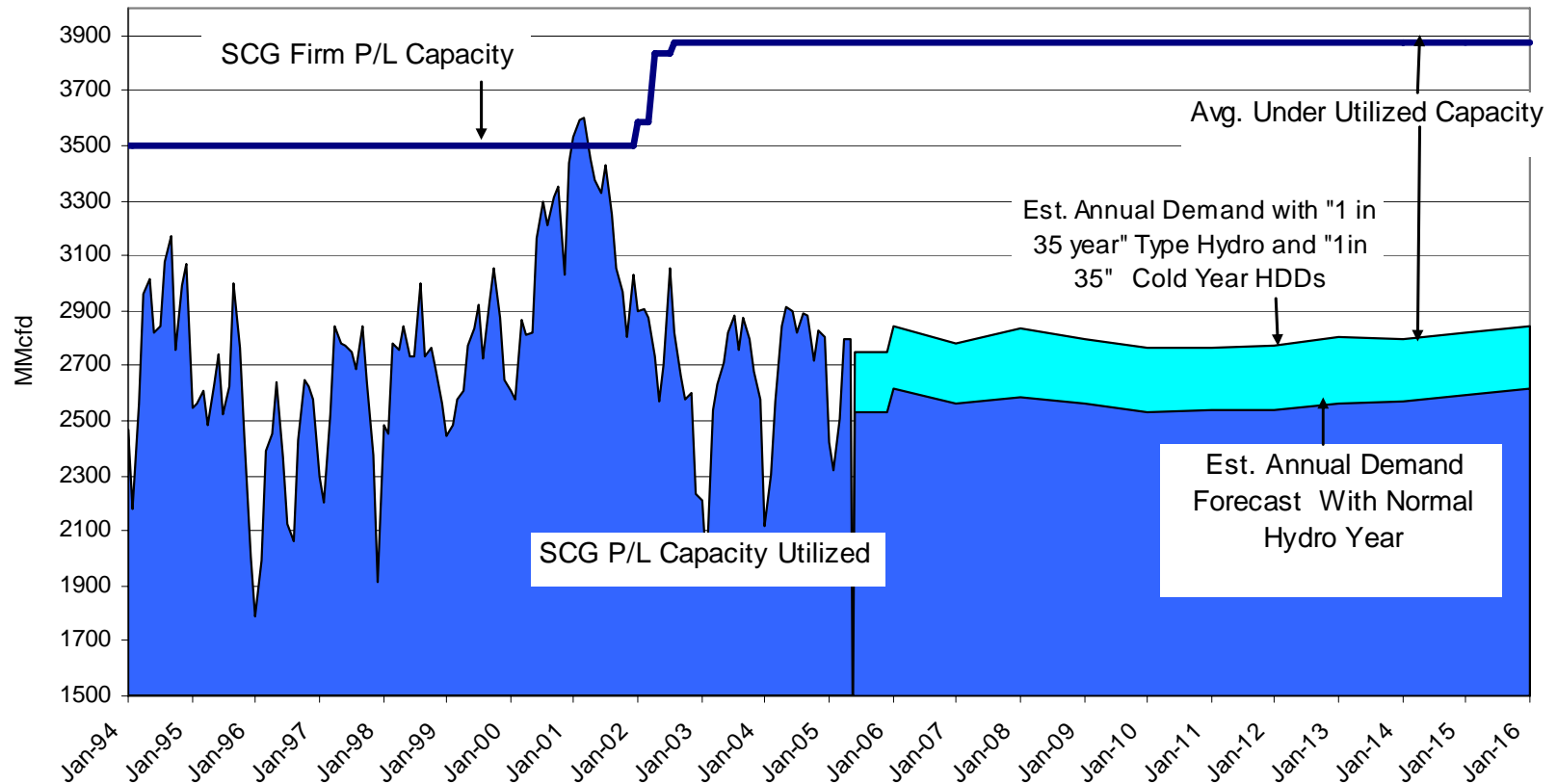
- ❖ Southern California gas infrastructure is adequate to meet customer requirements.
 - 3,875 MMcfd of backbone receipt capacity provides multiple access to all Western supply sources
 - Storage capacities
 - 122 Bcf inventory
 - 1,900 to 3,760 MMcfd Withdrawal Capacity
 - 800 to 1,000 MMcfd Injection Capacity



Gas Infrastructure

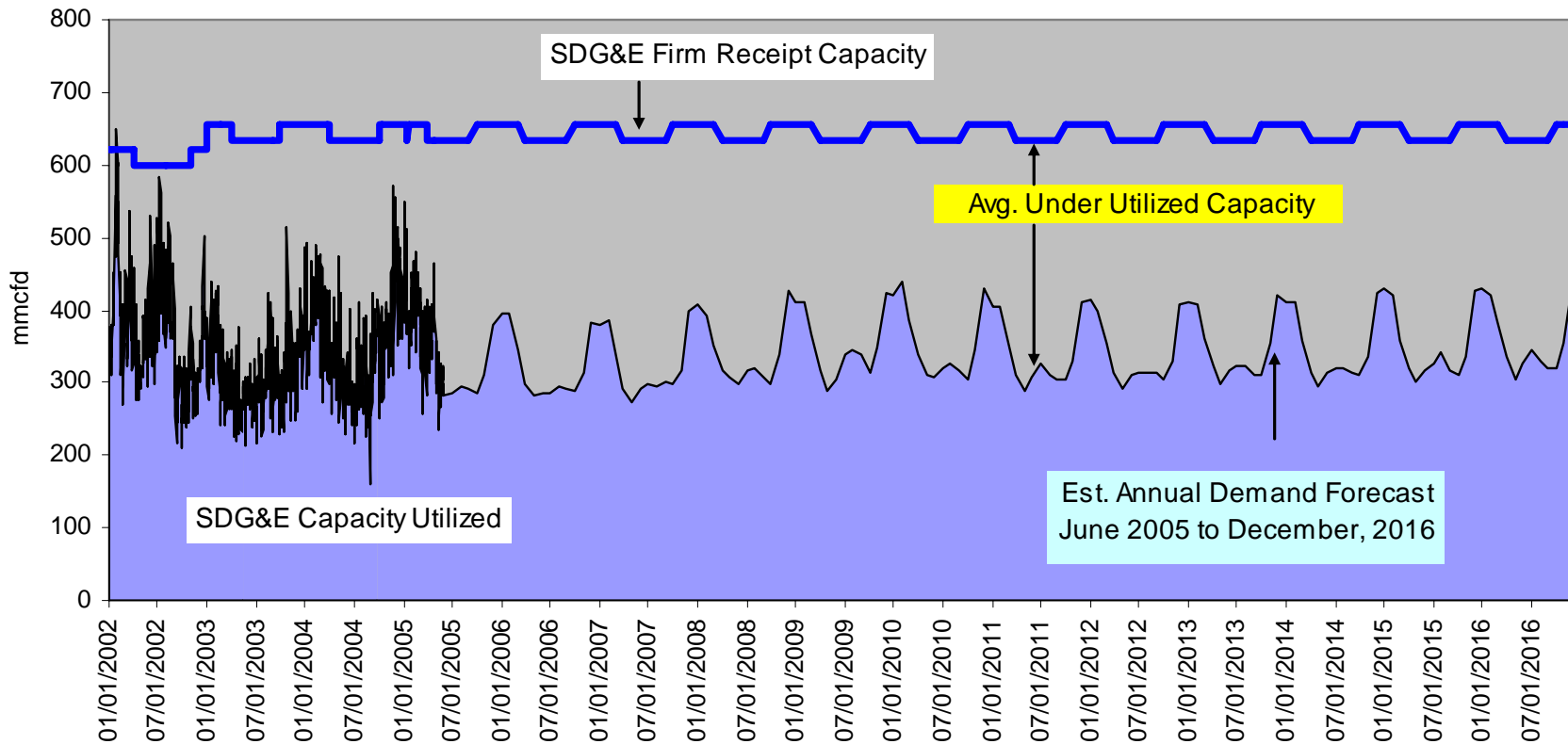
- ❖ Integration of backbone, storage and distribution system provides capability to redeliver supply well in excess of peak needs
 - SoCalGas peak day capacity : Over 6.0 Bcfd
 - Historical Peak = 5.3 Bcfd in Dec. 1990
 - SDG&E peak day capacity : 655 MMcfd (winter), 635 MMcfd (summer)
 - Recent peak throughput of 659 MMcfd prior to SoCalGas Line 6900 transmission upgrade

SoCalGas Backbone Receipt Capacity Can Meet Demand





SDG&E's Local Transmission Can Meet Demand



Source: Recorded data from PDOS through 05/30/2005, estimate: Phase II Natural Gas OIR - R.04-01-025 forecast - testimony of Herb Emrich



Backbone Receipt Expansion Policy

- ❖ SoCalGas and SDG&E would expand backbone receipt facilities to:
 - Ensure a reserve margin of 20 – 25% above expected demand, which we believe is cost effective way to meet most expected variations in end-use gas demand.
 - Provide customers with access to new supply sources to manage their procurement costs.
- ❖ When benefits exceed costs, the expansion costs should be rolled into system rates. Otherwise, shippers should pay for the expansion.
- ❖ We believe the commodity benefits of access to supply sources exceed the costs of facilities required to provide access to new sources of LNG.



Local Transmission Expansion Policy

- ❖ SoCalGas and SDG&E will expand local transmission systems to meet our expectations for core demand and noncore firm service commitments.
- ❖ SoCalGas and SDG&E use “open seasons” to gauge how much local transmission capacity customers desire, ensuring a fair allocation of capacity and cost effective expansions.



Storage Expansion Policy

- ❖ SoCalGas has sufficient storage to meet customer needs.
- ❖ Should demand for SoCalGas storage services increase beyond the existing physical capacities, we can expand our facilities within physical limits, based on two criteria:
 - We want to ensure that market participants truly desire additional storage services from SoCalGas so that we are not investing either shareholder or ratepayer funds that will not be prudently utilized.
 - There must be the risk/reward symmetry for storage investments.

Natural Gas Framework Modifications

- ❖ In order to encourage new sources of supply, California should enhance the framework for southern California gas market to:
 - Adopt a system of firm access rights so customers and suppliers can have the certainty that their supply will be redelivered from the upstream source to the burner-tip.
 - Provide customers in southern California with equal access to all supply sources to promote gas-on-gas competition and assure that customers are receiving the correct gas price signals when scheduling supplies.
 - Remove of barriers for new supply to access all markets in the western U.S.